CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1987 - 1988

90-00669/

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

Lester Everett - Chairperson

Private Entrepreneur - Member - Berens River Indian Band

Edmond Berens

Councillor - Berens River Indian Band

Bill Hudson

Councillor - Berens River Indian Band

Henry A. McKay

Fisherman - Berens River

Henry G. McKay

Airport Manager - Berens River

Jack Clarkson

Entrepreneur - Berens River

OFFICERS

Lester Everett

President

Gordon P. Trithart

Secretary-Treasurer

George Kemp

Manager

HEAD OFFICE: Berens River, Manitoba

TABLE OF CONTENTS

		PAGE
I.	INTRODUCTION	1
II.	SYNOPSIS OF YEAR'S EVENTS	2
III.	REVIEW OF RESULTS	3
	A. Financial Results	3
	B. Production	5
	C. Related Activities	6
	D. Training	7
	E. Other	7

APPENDIX - Audited Financial Statements
For Year Ended March 31, 1988

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1987 - MARCH 31, 1988

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation established in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

The Company conducts pulpwood harvesting operations on the east side of Lake Winnipeg where a valuable forestry resource exists and where there is a serious lack of employment opportunities.

Mechanical harvesters, mainly skidders, are used to harvest spruce pulpwood in eight-foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at a barge landing on the east side of Lake Winnipeg some 30 miles from the cutting area. The product is used to produce newsprint at the Abitibi-Price Pine Falls mill.

The accumulated loss since the Company's inception in 1973 is $2,197,522. Profit/loss for the last nine fiscal years ending March 31st are as follows:

	Profit	Loss
1980		$278,011
1981		173,487
1982		17,262
1983	$38,976	
1984		148,949
1985		235,635
1986		17,901
1987		8,531
1988		207,541

...2/

Profits/losses in the foregoing table are prior to the receipt of general subsidies from the Province, but include receipt of specific subsidies provided to offset development costs. Total assistance from the Province for the year ended March 31, 1988 was $217,832 compared to $12,931, $17,901 and $280,512 for the three prior years. (Refer to page 4).

II. SYNOPSIS OF THE YEAR'S EVENTS:

The important and progressive achievements demonstrated in the reduction of operational losses for the two years ending March 31, 1987, that is, $17,901 and $8,531 respectively, were reversed by the poor results for the year ending March 31, 1988.

A mechanical feller/buncher (snipper) was purchased at a cost of $231,501. Assistance in the amount of $138,901 was received from the Canada/Manitoba Northern Development Agreement. The machine is of paramount importance in extracting smaller diameter wood which would not be profitable for skidder crews to harvest.

For the first time in the history of the Company, a comprehensive ten-year cutting plan was produced which included maps and access road layout. The Province of Manitoba contributed $10,291 toward the cost of preparing this plan. This plan provides a basis for more accurate long range financial planning.

...3/

Non-resident contracting was limited to a crawler dozer for road construction, four trucks used for hauling pulpwood to the landing on Lake Winnipeg, and two skidder owner/operators who have been with the Company for many years.

Mr. Bruno Seppala, an experienced forester and conscientious board member resigned upon his retirement from the Department of Natural Resources.

III. REVIEW OF RESULTS:

A. Financial Results

Appended are audited financial statements for the fiscal year 1987-88, as prepared by the Provincial Auditor. These statements report an operational loss of $207,541 for 1987-88 compared to a loss of $8,531 for the previous year. The actual financial results for 1987/88 deviated considerably from the comprehensive operational and budget plans which had predicted a successful operation. This was primarily due to the Company's inability to retain experienced and action-orientated management which resulted in expensive contractual settlements and other operational cost overruns. As a result, it was necessary for the Province to once again increase assistance.

The following table outlines subsidies provided by the Province over the past four years.

...4/

	1984-85	1985-86	1986-87	1987-88
1. General Subsidy to Offset Annual Loss	$235,635	$ 17,901	$ 8,531	$207,541
2. Specific Subsidies				
Training			4,400	
Consulting Fees	37,595			$ 10,291
Strip Cutting Program	7,282			
Sub-Total	$ 44,877		$ 4,400	$ 10,291
3. Total Assistance	$280,512	$17,901	$12,931	$217,832

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1985-86	1986-87	1987-88
Cutters and Contract Wood	$31.81	$34.93	$39.62
Transportation - Wood Haul - Trucks	13.19	13.94	15.49
Company Equipment and Maintenance	1.88	2.00	2.35
Roads	4.64	6.49	9.76
Kitchen and Dorms	.92	1.56	2.82
General and Administration	16.63	11.53	17.08
Supervision in Bush	.52	.31	.34

...5/

Contractual settlements for cutters, skidders and truckers increased by $6.00 per cord. Per cord cost increases in other categories are due to a decrease of 3,677 cords in the annual harvest volume. Roads and kitchen costs exceeded the budgeted amount by $20,000 and $10,100 respectively. Included in the general and administrative cost overruns are consultant fees for the Cutting Plan - $18,180, prior year fuel tax $11,369, and bank interest $7,708.

B. Production

An outline of the harvested and delivered pulpwood for the past four years is shown in the following tables:

Annual Pulpwood Production in Cords

For the Years Ending March 31st

	1985	1986	1987	1988
Strip Cutting	488	-	-	-
Snipper		7,213	4,554	3,934
Cut & Skid	12,815	8,690	13,546	10,489
Total	13,263	15,903	18,100	14,423
Inventory at Year End	330	873	-	-

Annual Delivered (Sold) Pulpwood Volume in Cords

As at March 31st

1988	14,423
1987	18,100
1986	15,360
1985	15,483

...6/

By mid-August 1987, the Company produced 3,650 cords which is considered a reasonable summer harvest. The poor production which occurred during the remainder of the year was due to inadequate supervision, lack of firm written contracts, and a three week work stoppage during contract negotiations. Experienced on-site management is required if the Company is to be successful in controlling costs and meeting production targets.

C. Related Activities

In 1987-88, the Company employed a total of 34 people whose wages and benefits total $270,575 compared to $280,788 in 1986-87. Payments to and on behalf of contractors (including wages) amounted to $748,776 in 1987-88 compared to $812,414 in 1986-87. The decrease in production was responsible for the general reduction in total wages. Annual payments to contractors were influenced by increased per cord costs ($51.92 for 1987-88 and $44.88 for 1986-87). Approximately 45% of total wages were paid to residents of Berens River, while another 40% were paid to individuals of Indian ancestry from other areas of the Province. In general, 85% of the payments to contractors were to residents of the Channel Area.

The Company was unsuccessful in its bid for a reforestation contract.

The Company is the second largest employer in the Berens River area. Only commercial fishing employs more local individuals.

...7/

The Company maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items, and winter clothing, in addition to an order office for skidder and power saw parts.

D. Training

The Company provides on-the-job training to its employees as required. It is interesting to note that special 'on-the-job' training for the bookkeeper (a Berens River resident) resulted in an overall reduction in accounting costs. Accounting staff still require a transition period to upgrade their skills. In the interim, support is required from the Department of Northern Affairs and the Company's chartered accountant.

E. Other

A Secretary to the Board of Directors is provided by the Provincial Government. This position provides administrative and management support to the local operation and ensures adequate liaison between the Company and Government and between the Board of Directors and management.

Manitoba

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1988 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. W. Singleton, CA,
Assistant Provincial Auditor.

July 14, 1988,
Winnipeg, Manitoba.

CHANNEL AREA LOGGERS LTD. EXHIBIT A

Balance Sheet
as at March 31, 1988
(with 1987 figures for comparison)

A S S E T S	1988	1987
CURRENT ASSETS:		
Accounts receivable (Note 3)	$ 184,212	$ 162,933
Subsidy receivable from the Government of the Province of Manitoba	216,072	26,430
Inventories (Note 4)	71,676	77,333
Prepaid expenses	515	613
Total current assets	472,475	267,309
FIXED ASSETS (Note 5)	508,165	463,697
Less accumulated depreciation	294,357	262,297
Net fixed assets	213,808	201,400
GUARANTEE DEPOSIT WITH THE GOVERNMENT OF THE PROVINCE OF MANITOBA	900	900
TOTAL	$ 687,183	$ 469,609
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balances	$ 118,463	$ 9,188
Bank demand loan (Note 6)	195,000	80,000
Accounts payable (Note 7)	73,630	80,331
Total current liabilities	387,093	169,519
SHAREHOLDERS' EQUITY		
Capital stock (Note 8):		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 687,183	$ 469,609

Approved by the Board:

Director _____

Director _____

EXHIBIT B

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
REVENUES:		
Pulpwood sales	$ 1,045,697	1,258,316
Commissary sales	163,444	209,905
Board charges	22,205	32,333
Miscellaneous	20,705	48,319
Reforestation program	-	100,403
Log sales	-	10,066
Total revenues	1,252,051	1,659,342
EXPENDITURES:		
Direct logging costs (Schedule 1)	1,104,412	1,200,351
General and administrative (Schedule 2)	246,315	208,783
Commissary	131,683	167,180
Reforestation program	-	99,150
Total expenditures	1,482,410	1,675,464
	(230,359)	(16,122)
OTHER INCOME		
Gain on disposal of fixed assets	12,527	3,191
Excess (deficiency) of revenues over expenditures before operating assistance from the Government of the Province of Manitoba	(217,832)	(12,931)
Operating assistance from the Government of the Province of Manitoba - General subsidy	207,541	8,531
- Specific subsidy	10,291	4,400
	217,832	12,931
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -

EXHIBIT C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
CASH PRODVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Items not involving cash:		
Depreciation	$ 63,361	$ 45,892
Gain on disposal of fixed assets	(12,527)	(3,191)
	50,834	42,701
Net change in non-cash working capital balances related to operations	(211,867)	213,703
	(161,033)	256,404
INVESTING ACTIVITIES:		
Additions to fixed assets	(97,923)	(23,879)
Net proceeds from disposal of fixed assets	34,681	9,900
	(63,242)	(13,979)
INCREASE (DECREASE) IN CASH	(224,275)	242,425
CASH DEFICIENCY AT BEGINNING OF PERIOD	(89,188)	(331,613)
CASH DEFICIENCY AT END OF PERIOD	$ (313,463)	$ (89,188)
Represented by:		
Bank loan	$ (195,000)	$ (80,000)
Outstanding cheques	(118,463)	(9,188)
	$ (313,463)	$ (89,188)

SCHEDULE 1

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
INVENTORY AT BEGINNING OF THE YEAR	$ -	$ 29,127
PRODUCTION EXPENSES:		
Contract wood purchases	384,695	442,618
Cutters wages and fringe benefits	186,693	199,487
Depreciation	28,145	13,154
Transportation:		
Contract hauling to landing	223,388	252,320
Forwarding to roadside	5,597	6,610
Freight and fuel movement	9,448	9,704
Personnel transport	10,496	12,754
Road construction and maintenance, net	140,693	117,476
Timber dues	33,688	46,488
Supervision	4,834	5,528
Repairs and maintenance	33,926	36,195
Sundry	2,206	659
Kitchen and dormitory	40,603	28,231
Total production expenses	1,104,412	1,171,224
INVENTORY AT END OF YEAR	-	-
DIRECT LOGGING COSTS, EXHIBIT B	$ 1,104,412	$ 1,200,351

SCHEDULE 2

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Salaries, wages and fringe benefits	79,048	75,773
Depreciation	35,216	32,738
Insurance	33,202	30,468
Interest and service charges	19,272	11,948
Legal, audit and accounting	18,997	24,614
Consulting fees	18,212	-
Taxes, licences and fees	12,288	919
Bad debts	8,048	4,848
Mobile home	7,318	6,968
Communications	4,761	5,814
Directors' fees	3,842	3,745
Office supplies and utilities	2,876	3,535
Travel and accommodation	2,497	5,304
Miscellaneous	675	1,619
Directors' travel and accommodation	63	490
GENERAL AND ADMINISTRATIVE EXPENSES, EXHIBIT B	$ 246,315	$ 208,783

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1988

1. Nature of Operations

Channel Area Loggers Ltd. was established in 1973 under the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

2. Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company.

General:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation of fixed assets on the basis shown in note 5.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

Administrative Expenses:

Certain administrative expenses, as detailed in Note 9, are provided at no charge by the Government of the Province of Manitoba.

3. Accounts Receivable

The major categories of accounts receivable are:

	1988	1987
General	$ 153,681	$ 114,359
Government of the Province of Manitoba	10,291	4,400
Contract cutters	20,240	44,174
	$ 184,212	$ 162,933

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1988

4. Inventories

	1988	1987
The major categories of inventory are:		
Commissary supplies	1,489	1,548
Parts and supplies	19,121	24,206
Gasoline, diesel fuel and oil	48,850	48,414
Kitchen supplies	2,216	3,165
	$ 71,676	$ 77,333

5. Fixed Assets

The major categories of fixed assets and related accumulated depreciation at March 31, 1988 are:

	Cost	Accumulated Depreciation	Rates
Buildings and Trailers	$ 319,847		
Less: Funded by the Government of Canada	67,298		
	252,549	159,349	10%
Machinery and Equipment	415,706		
Less: Funded by the Government of the Province of Manitoba and the Government of Canada	160,090		
	255,616	135,008	10-25%
Road	273,164		
Less: Funded by the Government of Canada	273,164		
	-	-	
	$ 508,165	$ 294,357	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the straight-line basis at the rates shown above.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1988

6. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

7. Accounts Payable

The major categories of accounts payable are:

	1988	1987
Trade	$ 19,876	$ 15,474
Wage deductions	17,667	2,837
Employees	-	8,846
Government of the Province of Manitoba	36,087	53,174
	$ 73,630	$ 80,331

8. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

9. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $46,000 (1987 - $55,000). The Government of the Province of Manitoba also provides Workers Compensation coverage for Company staff at no charge to the Company.

10. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba.